



## NOTICE TO MEMBERS

No. 2018 – 057

May 29, 2018

### SELF-CERTIFICATION

#### **AMENDMENTS TO SECTION A-9 AND SECTION AND B-14 OF THE RULES, AND AMENDMENTS TO THE RISK MANUAL OF THE CANADIAN DERIVATIVES CLEARING CORPORATION**

On August 1st, 2017, the Board of Directors of the Canadian Derivatives Clearing Corporation (“CDCC”) approved amendments to the Rules and the Risk Manual of CDCC. CDCC wishes to inform the Clearing Members that these amendments have been self-certified pursuant to the self-certification process set forth in the *Derivatives Act* (C.Q.L.R., c I-14.01) and submitted to the Ontario Securities Commission in accordance with the “Rule Change Not Requiring Approval in Ontario” process.

CDCC is proposing amendments to its Rule A-9 “Adjustments in Contract Terms”, Section A-902, and its Rule B-14 “Instalment Receipt Options”, Section B-1407, which relate to, among other topics, the CDCC committee that has the authority to make adjustments in contract terms (the “Adjustment Committee”). The purpose of the proposed amendments mainly consists on providing more flexibility to CDCC regarding the composition and the governance of the Adjustment Committee by transferring the detailed composition and governance rules of the Adjustment Committee in a separate “committee charter”. CDCC is also proposing minor amendments to the Adjustment Committee provisions of the Risk Manual.

You will find attached hereto the amendments set to come into force and to be incorporated into the version of the Operations Manual of CDCC that will be made available on the CDCC website at [www.cdcc.ca](http://www.cdcc.ca) on June 4, 2018, before the market opening.

If you have any questions or concerns regarding this notice, please contact CDCC’s Corporate Operations department or direct your email inquiries to [cdcc-ops@cdcc.ca](mailto:cdcc-ops@cdcc.ca).

Glenn Goucher  
President and Chief Clearing Officer  
CDCC

## SECTION A-902 ADJUSTMENTS IN TERMS

- 1) Whenever there is a dividend, stock dividend, stock distribution, stock split, trust unit split, reverse stock split, reverse trust unit split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any Underlying Interest, or a merger, consolidation, dissolution or liquidation of the issuer of any Underlying Interest, the number of Derivative Instruments, the Unit of Trading, the Exercise Price, and the Underlying Interest, or any of them, with respect to all outstanding Derivative Instruments open for trading in that Underlying Interest may be adjusted in accordance with this Section A-902.
- 2) ~~Subject to Subsection (13) of this Section A-902, all adjustments made pursuant to this Section A-902 shall be made by a committee (“Adjustments Committee”). The Corporation, acting through a committee (“Adjustment Committee”),~~ The Adjustments Committee shall determine whether to make adjustments to reflect particular events in respect of an Underlying Interest, and the nature and extent of any such adjustment, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to Clearing Members and the Corporation, the maintenance of a fair and orderly market in Derivative Instruments on the Underlying Interest, consistency of interpretation and practice, efficiency of exercise settlement procedures, and the coordination with other clearing agencies of the clearance and settlement of transactions in the Underlying Interest. The Adjustments Committee may, in addition to determining adjustments on a case-by-case basis, adopt statements of policy or interpretation having general application to specified types of events. Any such statements of policy or interpretation shall be disseminated to all Clearing Members, Exchanges and securities and 3 or derivative instruments regulatory authorities having jurisdiction over the Corporation. Every determination by the Adjustments Committee pursuant to this Section A-902 shall be within the sole discretion of the Adjustments Committee and shall be conclusive and binding on all Clearing Members and not subject to review, other than review by securities and/or derivative instruments regulatory authorities having jurisdiction over the Corporation pursuant to applicable provisions of the respective statutes.
- 3) It shall be the general rule that there will be no adjustments of Options and similar instruments to reflect ordinary cash dividends or distributions, or ordinary stock dividends or distributions, or ordinary trust unit dividends or distributions declared by the issuer of the Underlying Interest, or any cash dividend or distribution declared by the issuer of the Underlying Interest if such dividend or distribution is less than \$12.50 per contract.
- 4) It shall be the general rule that there will be no adjustments of Transactions other than Options and similar instruments to reflect ordinary cash dividends or distributions, or ordinary stock dividends or distributions, or ordinary trust unit dividends or distributions declared by the issuer of the Underlying Interest if such dividend or distribution is less than \$12.50 per contract.
- 5)
  - i) For all Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby one or more whole number of additional shares of the Underlying Interest are issued with respect to each outstanding share, each Option or similar instrument covering that Underlying Interest shall be increased by the same number of additional contracts as the number of additional shares issued with respect to each share of the Underlying Interest, and

- the Exercise Price per share in effect immediately prior to such event shall be proportionately reduced, and the Unit of Trading shall remain the same.
- ii) For all Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby other than a whole number of shares of the Underlying Interest is issued in respect of each outstanding share, the Exercise Price in effect immediately prior to such event shall be proportionately reduced, and the Unit of Trading shall be proportionately increased.
  - iii) For all Options and similar instruments it shall be the general rule that in the case of a reverse stock split, consolidation or combination of shares, or similar event, each Option and similar instrument covering the affected Underlying Interest shall be adjusted, solely for purposes of determining the property deliverable upon exercise of the Option or similar instrument, by decreasing the Unit of Trading to reflect the number of shares eliminated. If an adjustment is made in accordance with the preceding sentence, the Unit of Trading for all such adjusted series of Options or similar instruments shall remain unchanged for purposes of determining the aggregate Exercise Price of the Option or similar instrument and for purposes of determining the premium for any such instrument purchased and sold.
  - iv) For all Transactions other than those covering Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby one or more whole number of additional shares of the Underlying Interest are issued with respect to each outstanding share, each Derivative Instrument covering that Underlying Interest shall be increased by the same number of additional contracts as the number of additional shares issued with respect to each share of the Underlying Interest, the last Settlement Price established immediately before such event shall be proportionately reduced, and the Unit of Trading shall remain the same.
  - v) For all Transactions other than those covering Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby other than a whole number of shares of the Underlying Interest is issued in respect of each outstanding share, the last Settlement Price established immediately before such event shall be proportionately reduced, and the Unit of Trading shall be proportionately increased.
  - vi) For all Transactions other than those covering Options and similar instruments it shall be the general rule that in the case of a reverse stock split, consolidation or combination of shares, or similar event, each Derivative Instrument covering the affected Underlying Interest shall be adjusted, solely for purposes of determining the property deliverable upon exercise of the instrument, by decreasing the Unit of Trading to reflect the number of shares eliminated. If an adjustment is made in accordance with the preceding sentence, the Unit of Trading for all such adjusted series of Derivatives Instruments shall remain unchanged for purposes of determining the aggregate Settlement Price of the Derivatives Instrument and for purposes of determining the premium for any such instrument purchased and sold.
- 6) It shall be the general rule that in the case of any distribution made with respect to shares of an Underlying Interest, other than ordinary dividends or distributions subject to Subsection (3) and (4) of this Section A-902 and other than dividends or distributions for which adjustments are provided in Subsection (5) of this Section A-902, if an adjustment is determined by the Adjustments Committee to be appropriate, for Options and similar instruments:

- i) the Exercise Price in effect immediately prior to such event shall be reduced by the value per share of the distributed property, in which event the Unit of Trading shall not be adjusted, or
- ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the Underlying Interest represented by the Unit of Trading in effect prior to such adjustment, in which event the Exercise Price shall not be adjusted;

for all other Transactions for which an Exercise Price is not available:

- i) the last Settlement Price established immediately before such event shall be reduced by the value per share of the distributed property, in which event the Unit of Trading shall not be adjusted, or
  - ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the Underlying Interest represented by the Unit of Trading in effect prior to such adjustment, in which event the Settlement Price shall not be adjusted.
  - iii) The Adjustments Committee shall, with respect to adjustments under this Subsection or any other Subsection of this Section A-902, have the authority to determine the value of distributed property.
- 7) In the case of any event for which adjustments are not provided in any of the foregoing Subsections of this Section A-902, the Adjustments Committee may make such adjustments, if any, with respect to the characteristics of the Derivative Instrument affected by such event as the Adjustments Committee determines.
- 8) Adjustments pursuant to this Section A-902 as a general rule shall become effective in respect of Transactions outstanding on the “ex-dividend date” established by the exchange or exchanges on which the Underlying Interest is traded. In the event that the “ex-dividend date” for an Underlying Interest traded on exchanges differs from one exchange to another, the Corporation shall deem the earliest date to be the “ex-dividend date” for the purposes of this Section A-902. “Ex-dividend dates” established by any other exchange or exchanges on which an Underlying Interest may be traded shall be disregarded.
- 9) It shall be the general rule that (i) all adjustments of the Exercise Price of an outstanding Option or similar instrument shall be rounded to the nearest adjustment increment, (ii) when an adjustment causes an Exercise Price to be equidistant between two adjustment increments, the Exercise Price shall be rounded up to the next highest adjustment increment, (iii) all adjustments of the Unit of Trading shall be rounded down to eliminate any fraction, and (iv) if the adjustment is made pursuant to subparagraph (5)(iii) above, the value of the fractional share so eliminated as determined by the Corporation shall be added to the Unit of Trading, or if the adjustment is made pursuant to subparagraph (5)(ii) above, if the Unit of Trading is rounded down to eliminate a fraction, the adjusted Exercise Price may be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the Option or similar instrument resulting from the elimination of the fraction.
- 10) It shall be the general rule that (i) all adjustments of the Settlement Price of an outstanding transaction other than those covering an Option or similar instrument shall be rounded to the nearest adjustment increment, (ii) when an adjustment causes a Settlement Price to be equidistant between two adjustment increments, the settlement price shall be rounded up to the next highest adjustment increment, (iii) all adjustments of the Unit of Trading shall be rounded down to eliminate any fraction, and (iv) if the adjustment is made pursuant to subparagraph (5)(v) above, the value of the

fractional share so eliminated as determined by the Corporation shall be added to the Unit of Trading, or if the adjustment is made pursuant to subparagraph (5)(iv) above, if the Unit of Trading is rounded down to eliminate a fraction, the adjusted Settlement Price may be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the Derivative Instrument resulting from the elimination of the fraction.

11) Notwithstanding the general rules set forth in Subsections (3) through (9) of this Section A-902 or which may be set forth as interpretations and policies under this Section A-902, the Adjustments Committee shall have the power to make exceptions in those cases or groups of cases in which, in applying the standards set forth in Subsection (2) thereof the Adjustments Committee shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Adjustments Committee affirmatively determines to make an exception in a particular case or group of cases.

~~12) For Exchange Transactions, the Adjustments Committee shall consist of two designated representatives of the exchange that lists the Derivative Instrument that the adjustments apply to, and one representative designated by the Corporation; and the quorum for transacting exchange transactions business at any meeting of the Adjustments Committee shall be two from the exchange and one from the Corporation. For OTCI, the Adjustments Committee will consist of three designated representatives of the Corporation; and the quorum for transacting OTCI business at any meeting of the Adjustments Committee is three designated representatives of the Corporation. The vote of a majority of the members of the Adjustments Committee in attendance at any meeting shall constitute the determination of the Adjustments Committee. The Adjustments Committee may transact its business by means of a telephonic, electronic or other communication facility that permits all participants to communicate appropriately with each other during the meeting. Notwithstanding the foregoing provisions of this Subsection, any representative of the Corporation or of an Exchange may designate any other representative of the Corporation or of the exchange, respectively, to serve in his place at any meeting of the Adjustments Committee. In the event of such designation, the designee, for the purposes of such meeting, shall have all of the powers and duties under this Section A-902 of the person designating him. Any representative designated by the Corporation or the Exchange, or any other representative designated by such a representative, cannot serve on the Adjustments Committee if such person, is the beneficial holder of a long or short position in the Derivative Instrument or OTCI as to which the Adjustments Committee is to make a determination. As stipulated in the By laws of the Corporation, a majority of the members of the Adjustments Committee shall be resident Canadians.~~

~~13) 12) In the event that the Adjustments Committee is unable to determine whether to make adjustments in any particular case, the matter shall be referred to the Board for a determination.~~

## INTERPRETATIONS AND POLICIES

1)

- i) Cash dividends or distributions (regardless of size) declared by the issuer of the Underlying Interest which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis, as well as resumption of dividends or distributions will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of Subsection A-902(3). Cash dividends or distributions declared by the issuer of the Underlying Interest which are declared outside of a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis

- will be deemed to be “special cash dividends or distributions” if they exceed the threshold of \$12.50 per contract.
- ii) Stock dividends or distributions, or trust unit dividends or distributions declared by the issuer of the Underlying Interest in an aggregate amount that per dividend or distribution does not exceed 10% of the number of shares of the Underlying Interest outstanding as of the close of trading on the declaration date, and which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis will, as a general rule, be deemed to be “ordinary stock dividends or distributions” or “ordinary trust unit dividends or distributions” within the meaning of Subsection A-902(3).
  - iii) Cash dividends or distributions declared by the issuer of the Underlying Interest which the Corporation considers to have been declared outside of a regular policy or practice of paying such dividends or distributions and that exceeds \$12.50 per contract will be deemed to be “special cash dividends or distributions” within the meaning of Subsection A-902(3).
  - iv) Stock dividends or distributions, or trust unit dividends or distributions declared by the issuer of the Underlying Interest which the Corporation considers to have been declared outside of a regular policy and that exceeds 10% of the number of shares of the Underlying Interest will be deemed to be “special stock dividends or distributions” or “special trust unit dividends or distributions” within the meaning of Subsection A-902(3).
  - v) Cash dividends or distributions declared by the issuer of the Underlying Interest which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis, as well as resumption of dividends or distributions will, as a general rule, be deemed to be “ordinary distributions” within the meaning of Subsection A-902(4). The Corporation will determine on a case-by-case basis whether other dividends or distributions are “ordinary distributions” or whether they are dividends or distributions for which an adjustment should be made.
  - vi) Stock dividends or distributions or trust unit dividends or distributions by the issuer of the Underlying Interest which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis will, as a general rule, be deemed to be “ordinary distributions” within the meaning of Subsection A-902(4). The Corporation will ordinarily adjust for other stock dividends and distributions.

Nevertheless, the Adjustments Committee will determine, on its sole discretion, on a case-by-case basis whether other dividends or distributions are “ordinary dividends or distributions” or whether they are dividends or distributions for which adjustments should be made, regardless of the threshold of \$12.50 per contract applied to “special dividends or distributions”.

Normally, the Adjustments Committee shall classify a cash dividend or cash distribution as non-ordinary when it believes that similar cash dividends or cash distributions will not be paid on a quarterly or other regular basis. Notwithstanding that the Adjustments Committee has classified a cash dividend or cash distribution as non-ordinary, it may, with respect to events announced on or after February 1, 2012, classify subsequent cash dividends or cash distributions of a similar nature as ordinary if (i) the issuer discloses that it intends to pay such dividends or distributions on a quarterly or other regular basis, (ii) the issuer has paid such dividends or distributions for four or more consecutive months or quarters or two or more years after the initial payment, whether or not the amounts paid were the same from period to period, or (iii) the Adjustments Committee determines for other reasons that the issuer has a policy or practice of paying such dividends or distributions on a quarterly or other regular basis.



2)

- i) Adjustments will not ordinarily be made to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the Underlying Interest, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the Underlying Interest, or are redeemed, the Adjustments Committee will determine whether adjustments are appropriate.
- ii) Except as provided above in the case of certain “poison pill” rights, adjustments for rights distributions will ordinarily be made to Transactions other than those covering Options and similar instruments. When an adjustment is made for a rights distribution, the Unit of Trading in effect immediately prior to the distribution will ordinarily be adjusted to include the number of rights distributed with respect to the number of shares of the Underlying Interest comprising the Unit of Trading. If, however, the Corporation determines that the rights are due to expire before the time they could be exercised upon delivery under the contract, then delivery of the rights will not be required. Instead, the Corporation will ordinarily adjust the last Settlement Price established before the rights expire to reflect the value, if any, of the rights as determined by the Corporation in its sole discretion.
- iii) Adjustments will not be made to reflect a take-over bid or issuer bid made for the Underlying Interest, whether such offer is for cash, Securities or other property. This policy will apply without regard to whether the price of the Underlying Interest may be favourably or adversely affected by the offer or whether the offer may be deemed to be “coercive”. Outstanding Transactions ordinarily will be adjusted to reflect a merger, amalgamation, arrangement or similar event that becomes effective following the completion of a take-over bid.
- iv) Adjustments will not be made to reflect changes in the capital structure of an issuer where all of the Underlying Interest in the hands of the public (other than dissenters' shares) are not changed into another Security, cash or other property. For example, adjustments will not be made merely to reflect the issuance (except as a distribution on an Underlying Interest) of new or additional debt, stock, trust units, or options, warrants or other securities convertible into or exercisable for the Underlying Interest, the refinancing of the issuer's outstanding debt, the repurchase by the issuer of less than all of the Underlying Interest outstanding or the sale by the issuer of significant capital assets.
- v) When an Underlying Interest is converted into a right to receive a fixed amount of cash, such as in a merger, amalgamation, arrangement or similar event, outstanding Options or similar instruments will be adjusted to require the delivery upon exercise of cash in an amount per share equal to the conversion price. As a result of such adjustments, the value of all outstanding In-the-money Options or similar instruments will become fixed, and all At-the-money and Out-of-the-money Options or similar instruments will become worthless. Outstanding transactions other than those covering Options or similar instruments will be adjusted to replace such Underlying Interest with such fixed amount of cash as the Underlying Interest, and the Unit of Trading shall remain unchanged.
- vi) In the case of a spin off or similar event by the issuer of an Underlying Interest which results in a property distribution, Derivatives Instruments will be adjusted to reflect such distribution. The value of the property distributed shall be reflected in the shares deliverable.
- vii) In the case of a corporate reorganization or similar occurrence by the issuer of an Underlying Interest which results in an automatic share-for-share exchange of the

Underlying Interest for shares of another class in the capital of the issuer or in the resulting company, the Transactions on the Underlying Interest will ordinarily be adjusted to require delivery upon exercise of a like number of units of the shares of such other class or of the resulting company. Because the Securities are generally exchanged only on the books of the issuer and/or the resulting company, as the case may be, and are generally not exchanged physically, deliverable shares will ordinarily include certificates that are denominated on their face as shares in the original class of shares of the original issuer, but which, as a result of the corporate transaction, represent shares in the other class or in the resulting company, as the case may be.

- viii) When an Underlying Interest is converted in whole or in part into a debt security and/or a preferred stock, as in a merger, and interest or dividends on such debt security or preferred stock are payable in the form of additional units thereof, outstanding Transactions that have been adjusted to call for delivery of such debt security or preferred stock shall be further adjusted, effective as of the ex-date for each payment of interest or dividends thereon, to call for delivery of the securities distributed as interest or dividends thereon.
- ix) Notwithstanding paragraph 1) of Interpretations and Policiesy (1) under Section A-902, (i) "ordinary cash dividends or distributions" within the meaning of paragraph (3) of Section A-902 shall not, as a general rule, be deemed to include distributions of short-term or long-term capital gains by the issuer of the Underlying Interest, and (ii) "ordinary cash dividends or distributions" within the meaning of paragraph (3) of Section A-902 shall not, as a general rule, be deemed to include other distributions by the issuer of the Underlying Interest, provided that (a) the issuer is an entity that holds securities or replicates holding of securities that track the performance of an index that underlies a class of index Options or index Futures, and the distribution on the Underlying Interest includes or reflects a dividend or other distribution on a security part of the index that resulted in an adjustment of the index divisor; or (b) the distribution on the Underlying Interest includes or reflects a dividend or other distribution on a security part of the index (I) that results in an adjustment of Options and similar instruments on other Underlying Interest pursuant to clause (ii)(a), or (II) that is not deemed an ordinary dividend or distribution under Interpretation (1) above.

Adjustments of the terms of Options and similar instruments on such Underlying Interest for distributions described in clause (i) or (ii) above shall be made in accordance with paragraph (6) of Section A-902, unless the Adjustments Committee determines, on a case-by-case basis, not to adjust for such a distribution; provided, however, that no adjustment shall be made for any such distribution where the amount of the adjustment would be less than \$.125 per Underlying Interest.

(...)

## **SECTION B-1006 ADJUSTMENTS**

No adjustments will ordinarily be made in the terms of Eligible Stock Index Options in the event that Underlying Securities are added to or deleted from an Eligible Stock Index or when the relative mean weight of one or more Underlying Securities in an Eligible Stock Index is changed. However, if the Corporation determines, in its sole discretion, that any such addition, deletion or change causes significant discontinuity in the level of the Eligible Stock Index, the Corporation may adjust the terms of the affected Eligible Stock Index Options by taking such action as the Corporation in its sole discretion deems fair to Clearing Members



holding Long or Short Positions in these contracts. Determinations with respect to adjustments pursuant to this Section shall be made by the Adjustments Committee provided for in Subsection A-902(2)

(...)

### SECTION B-1407 ADJUSTMENTS IN TERMS

- 1) Whenever there is a dividend, stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of any underlying security, the number of Instalment Receipt Options, the Unit of Trading, the Exercise Price and the underlying security, or any of them, with respect to all outstanding Instalment Receipt Options open for trading in that underlying security may be adjusted in accordance with this Section B-1407.
- 2) ~~Subject to Subsection (10) of this Section B-1407, all adjustments made pursuant to this Section B-1407 shall be made by the Adjustments Committee.~~ The Corporation, acting through the Adjustments Committee, shall determine whether to make adjustments to reflect particular events in respect of an underlying security, and the nature and extent of any such adjustment, based on its judgement as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers of Instalment Receipt Options on the underlying security, the maintenance of a fair and orderly market in Instalment Receipt Options on the underlying security, consistency of interpretation and practice, efficiency of exercise settlement procedures, and the co-ordination with other clearing agencies of the clearance and settlement of transactions in the underlying security. The Adjustments Committee may, in addition to determining adjustments on a case-by-case basis, adopt statements of policy or interpretation having general application to specified types of events. Any such statements of policy or interpretation shall be disseminated to all Clearing Members, Exchanges and securities and/or derivative instruments regulatory authorities having jurisdiction over the Corporation. Every determination by the Adjustments Committee pursuant to this Section B-1407 shall be within the sole discretion of the Adjustments Committee and shall be conclusive and binding on all investors and not subject to review, other than review by securities and/or derivative instrument regulatory authorities having jurisdiction over the Corporation pursuant to applicable provisions of the respective statutes.
- 3) It shall be the general rule that there will be no adjustments to reflect ordinary cash dividends or distributions paid by the issuer of the security evidenced by an Instalment Receipt.
- 4) It shall be the general rule that in the case of any distribution made with respect to securities evidenced by an Instalment Receipt, other than cash distributions subject to Subsection (3) of this Section B-1407, if an adjustment is determined by the Adjustments Committee to be appropriate,
  - i) the Exercise Price in effect immediately prior to such event shall be reduced by the value per Instalment Receipt of the distributed property, in which event the Unit of Trading shall not be adjusted; or
  - ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the securities evidenced by the number of Instalment Receipts represented by the Unit of Trading in effect prior to such adjustment, in which event the Exercise Price shall not be adjusted.

The Adjustments Committee shall, with respect to adjustments under this Subsection or any other Subsection of this Section B-1407, have the authority to determine the value of distributed property.

- 5) In the case of any event for which adjustment is not provided in any of the foregoing Subsections of this Section B-1407, the Adjustments Committee may make such adjustments, if any, with respect to the Instalment Receipt Option affected by such event as the Adjustments Committee determines.
- 6) Adjustments pursuant to this Section B-1407 as a general rule shall become effective in respect of Instalment Receipt Options outstanding on the “ex-date” established by the Exchange or Exchanges on which the Underlying Instalment Receipt is traded. In the event that the “ex-date” for an Underlying Instalment Receipt traded on Exchanges differs from one Exchange to the other, the Corporation shall deem the earliest date to be the “ex-date” for the purposes of this Section B-1407. “Ex-dates” established by any other exchange or exchanges on which an Underlying Instalment Receipt may be traded shall be disregarded.
- 7) It shall be the general rule that:
  - i) all adjustments of the Exercise Price of an outstanding Instalment Receipt Option shall be rounded to the nearest \$0.05, and all adjustments of the unit of trading shall be rounded down to eliminate any fraction; and
  - ii) if the Unit of Trading is rounded down to eliminate a fraction, the adjusted Exercise Price shall be further adjusted, to the nearest \$0.05, to reflect any diminution in the value of the Instalment Receipt Option resulting from the elimination of the fraction.
- 8) Notwithstanding the general rules set forth in Subsections (3) through (7) of this Section B-1407 or which may be set forth ~~under~~ Interpretations and Policies ~~of~~ under this Section B-1407, the Adjustments Committee shall have the power to make exceptions in those cases or groups of cases in which, in applying the standards set forth in Subsection (2) thereof the Adjustments Committee shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Adjustments Committee affirmatively determines to make an exception in a particular case or group of cases.
- ~~9) The Adjustments Committee shall consist of two designated representatives of each Exchange and one representative of the Corporation. The quorum for transacting business at any meeting of the Adjustments Committee shall be four representatives; one from each Exchange and one from the Corporation. The vote of a majority of the members of the Adjustments Committee in attendance at any meeting shall constitute the determination of the Adjustments Committee. The Adjustments Committee may transact its business by conference telephone. Notwithstanding the foregoing provisions of this Subsection, any representative of the Corporation or of an Exchange may designate any other representative of the Corporation or of such Exchange, respectively, to serve in his place at any meeting of the Adjustments Committee. In the event of such designation, the designee, for the purposes of such meeting, shall have all of the powers and duties under this Section B-1407 of the person designating him. Neither the Corporation nor any Exchange shall designate to serve on the Adjustment Committee, any person, who, to the knowledge of the self-regulatory organization designating such person, is the beneficial holder of a long or short position in Instalment Receipt Options as to which the Adjustment Committee is to make a determination.~~
- ~~10) In the event that the Adjustments Committee is unable to determine whether to make an adjustment in any particular case, the matter shall be referred to the Board for a determination.~~

#### INTERPRETATIONS AND POLICIES

A cash dividend or distribution on a class of shares in an amount which does not exceed 10% of the market value (as of the close of trading on the trading day prior to the date on which such dividend or distribution is announced) of the class of shares evidenced by the Instalment Receipts (and not the market value of the Instalment Receipts themselves) will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of Subsection (3) of this Section B-1407. The Adjustments Committee will determine on a case-by-case basis whether other cash dividends or distributions are “ordinary cash dividends or distributions” or whether they are dividends or distributions for which an adjustment should be made.

Where the Adjustments Committee determines to adjust for a cash dividend or distribution, the adjustment shall be made in accordance with Subsection (6) of this Section B-1407.

Adjustments will not ordinarily be made to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the underlying security, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the underlying security, or are redeemed, the Adjustments Committee will determine whether an adjustment is appropriate.

Adjustments will not be made to reflect a take-over bid or issuer bid made for the underlying security, whether such offer is for cash, securities or other property. This policy will apply without regard to whether the price of the underlying security may be favourably or adversely affected by the offer or whether the offer may be deemed to be “coercive”. Outstanding Instalment Receipt Options ordinarily will be adjusted to reflect a merger, amalgamation, arrangement or similar event that becomes effective following the completion of a take-over bid.

(...)

#### **SECTION B-1508 ADJUSTMENTS**

- 1) Section A-902 as applicable to Derivative Instruments will apply to Sponsored Options where the Underlying Interest is an equity related product.
- 2) No adjustments will ordinarily be made in the terms of Sponsored Options where the Underlying Interest is an Index in the event that Underlying Securities are added to or deleted from an Index or when the relative weight of one or more Underlying Securities in an Index is changed. However, if the Corporation determines in its sole discretion that any such addition, deletion or change could cause significant discontinuity in the level of the Index, the Corporation may adjust the terms of the affected Sponsored Options by taking such actions as the Corporation in its sole discretion deems fair to the Clearing Member holding Long and Short Positions in the contracts. Determination with respect to adjustments pursuant to this Section shall be made by the Adjustments Committee provided for in Subsection A-902(2).

(...)

#### **SECTION D-505 ADJUSTMENTS**

No adjustments will ordinarily be made in the terms of Eligible Index Options in the event that Underlying Securities are added to or deleted from an Eligible Index or when the relative mean weight of one or more Underlying Securities in an Index is changed. However, if the Corporation determines, in its sole discretion, that any such addition, deletion or change causes significant discontinuity in the level of the Index, the Corporation may adjust the terms of the affected Index Options by taking such action as the Corporation, in its sole discretion, deems fair to Clearing

Members holding Short or Long Positions in these contracts. Determinations with respect to adjustments pursuant to this Section shall be made by the Adjustments Committee provided for in Subsection A-902(2).



## RISK MANUAL

## Section 1: Contract Adjustment

Section A-902 of the Rules prescribes the cases in which a contract adjustment may be made.

The Corporation is responsible for monitoring and identifying the corporate events that may result in a contract adjustment. It interprets the information and communicates it to the Adjustments Committee as soon as possible. The Adjustments Committee acts in accordance with the provisions of Rule A-9.

A meeting of the Adjustments Committee is called by the Corporation, whenever circumstances require. The Adjustment Committee is responsible for preparing the draft notices to the Clearing Members which, once approved by the Adjustment Committee members, are published to the attention of the Clearing Members and the market participants.